

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF SOUTH CENTRAL)	
BELL TELEPHONE COMPANY TO ESTABLISH)	CASE NO. 10218
MEGALINK CHANNEL SERVICE)	

O R D E R

IT IS ORDERED that South Central Bell Telephone Company ("SCB") shall file an original and 12 copies of the following information with the Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to insure that it is legible.

The information requested is due no later than June 17, 1988. If the information cannot be provided by this date, a motion for an extension of time must be submitted stating the reason for the delay and the date by which the information can be furnished. The Commission will give due consideration to such motions.

1. Was channelization provided before Megalink?
2. What are ESSX Network Access Registers?

3. Why are Lightgate and Megalink channel service being offered at this time? Has there been a technological change that makes these services feasible at this time?

4. How many "basic system" customers does SCB currently have?

5. Identify examples of feature activations.

6. Will provision of Megalink Channel Service result in the obsolescence of central office circuit equipment? If yes, what is the value of the equipment? How would this be handled in rate base?

7. What are the advantages and disadvantages to the customer of providing D4 Type Channel Bank technology in the central office?

8. What are the advantages and disadvantages of providing D4 Type Channel Bank technology on the customer premises?

9. Is all the capital investment in the channel bank technology recovered over the contract period from the customer?

10. Are rate discounts for longer period contracts cost justified? Please explain through examples.

11. If a customer elects to cancel service at the end of a contract period, what will happen to the Channel Bank equipment?

12. In the March 10, 1988 transmittal letter, SCB stated, "These options were created to provide the flexibility to meet a customer's seasonal needs as well as to provide for rate stability where the customers's requirements are not subject to change." Provide examples of customers with seasonal needs and of customers seeking rate stability.

13. How were the activation rates for a month-to-month basis and for contract periods of 3, 5, or 7 years determined?

14. Describe the characteristics of the customers that Megalink Channel Service is targeting. Use examples.

15. Describe the characteristics of customers who have channel services with associated interoffice mileage that would be good candidates for MLCS.

16. If the offering of MLCS makes a contribution to local rates, will it be greater than the contribution under existing arrangements?

17. What are the public interest benefits to approving Megalink Channel Service at this time?

18. Has SCB projected the demand for Megalink Channel Service during the next 5 years? If yes, provide the information. If no, why not?

19. Describe the Lightgate Service.

20. Provide the cost support for the unbundled rate applicable to the access to and usage of the exchange network for each line equivalent.

21. In the transmittal letter it is stated that the use of Lightgate or Megalink Channel Service for the provision of ESSX station lines may be economical for a customer and make ESSX service more attractive depending on distance from the central office and the number of lines needed. Provide a chart indicating distances and number of lines that would make ESSX economically attractive.

22. Please reference the cost support pages filed with the tariff.

a. It appears that the amounts listed for "Annual Operating Costs" and "Annual Capital Related Costs" were determined by multiplying individual factors by the investment amounts. Provide an analysis and a detailed explanation of how each factor ("Maintenance," "Administration Expenses," "Other," "Depreciation Expense," "Cost of Money," "Income Taxes," and "Gross Receipts Taxes") was derived. For example, was the maintenance expense factor developed by comparing historical maintenance expenses to related investment amounts? If so, please explain which maintenance and plant accounts are involved, and show all calculations for each rate element.

b. The cost support provided is for the month to month rate plan only. Can the costs for the remaining rate plans be determined by applying the appropriate annuity factors contained in "General Rate Development Notes and Assumptions" to nonrecurring costs that are not recovered by nonrecurring charges?

i. If so, please explain what is meant by the statements, "It evaluated the direct, forward-looking nonrecurring and recurring incremental costs associated with the provision of this particular service. The level of these costs vary with the quantity of the service and the period under study" which is contained in the second paragraph of the first page, entitled "Megalink Channel Service Cost Information", of the cost support. If this is the manner in which "costs" are derived, then it would

appear that costs are not a function of the period under study, although the charges clearly are.

ii. If not, please explain how the costs for the remaining rate plans can be derived or provide cost analyses for these remaining rate plans.

c. The page entitled "Megalink Channel Service Cost Information" shows the cost of money component used in the cost study. This factor is not the same as the factor used in the study. In addition, the page entitled "General Rate Development Notes and Assumptions" also specifies a cost of money factor. The use of this factor in the standard annuity formula $A/P = [i(1+i)^n] / [(1+i)^n - 1]$ does not produce the annuity factors listed, unless severe rounding has occurred. Please reconcile these factors.

23. Please explain what tariff and rate modifications would be required if network channel terminating equipment is detariffed.

24. Please explain why the establishment of an ESSX NAR¹ rate in the Volume Usage Measured Rate Service Tariff is not in violation of the moratorium on local measured service.

25. Please provide support or justification for the usage cap.

¹ Network Access Register.

26. In Administrative Case No. 293, In the Matter of an Inquiry into Local Resale of Exchange Services by STS² Providers and COCOT³ Providers, in the April 16, 1986 Order, beginning on page 17, it is stated:

The Commission is concerned with developing an appropriate rate structure for both the resale and retail service market. The LECs⁴ have documented a number of problems that have occurred with the introduction of both STS and COCOT vendors. However, no persuasive evidence has been offered to support the conclusion that STS vendors would be different in either their usage characteristics or trunk demand from other PBX users. . . We see no reason to treat this group of PBX users differently from other PBX users in terms of cost structure.

Please explain the difference in characteristics between resellers and other users that justify not applying the volume usage cap to resellers.

² Shared Tenant Services.

³ Customer-Owned Coin Operated Telephones.

⁴ Local Exchange Carriers. Footnote added.

Done at Frankfort, Kentucky, this 3rd day of June, 1988.

PUBLIC SERVICE COMMISSION

Richard D. Hennigh
For the Commission

ATTEST:

Executive Director